

**HUNGRY CANYONS ALLIANCE, INC.
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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Diane McGrain, CPA
Jim Menard, CPA

November 11, 2013

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Hungry Canyons Alliance, Inc.
Oakland, IA

Report on the Financial Statements

We have audited the accompanying financial statements of Hungry Canyons Alliance, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessments of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Continued...

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Hungry Canyons Alliance, Inc.
Independent Auditors' Report

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hungry Canyons Alliance, Inc. as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis and the Budgetary Comparison Information on pages 6 through 10, and page 19, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

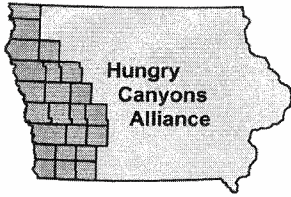
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Hungry Canyons Alliance, Inc.
Independent Auditors' Report

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2013, on our consideration of Hungry Canyons Alliance, Inc.'s internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hungry Canyons Alliance, Inc.'s internal control over financial reporting and compliance.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Hungry Canyons Alliance, Inc. (HCA) provides this Management's Discussion and Analysis of the HCA's annual financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the HCA's financial statements which follow.

2013 Financial Highlights

- HCA Federal appropriations were not funded for FY2012 or again in FY2013.
- HCA State appropriations increased from \$356,250 in FY2012 to \$393,750 in FY2013, a 10.5% increase.
- The HCA's total restricted assets (funds available for Grade Control Structures-CGS) decreased by \$215,402 from June 30, 2012 to June 30, 2013, or approximately 10.1%. This decrease is due to an increase in the number of state projects completed in FY2013. Many obligated HCA projects had been delayed over the last several years while counties focused on completing federally funded Emergency Watershed Protection (EWP) projects; EWP funding was available to western Iowa counties for a limited time only.
- The HCA's total liabilities and net assets decreased by \$235,568, or approximately 10%, from June 30, 2012 to June 30, 2013. This decrease is again due to an increase in the number of state projects completed.

Using this Annual Report

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the HCA's financial activities.

The basic financial statements consist of a Statement of Financial Position including assets, liabilities, and net assets, a Statement of Activities and Changes in Net Assets, and a Statement of Cash Flows. These statements provide information about the activities of the HCA, on a comparative basis, including resources held by the HCA but restricted for specific purposes by legislation or by the HCA's Board of Directors.

Notes to Financial Statements (pg.15-18) provide additional information essential to a full understanding of the data provided in the basic financial statements.

Reporting the HCA's Financial Activities

The Statement of Financial Position and Statement of Activities and Changes in Net Assets

One of the most important questions regarding the HCA's finances is "Was the HCA monetarily able to attain its goals during the year?" The Statement of Financial Position and the Statement of Activities and Changes in Net Assets report information about the HCA's resources and its activities in a way that helps answer this question. These statements include all assets (restricted and unrestricted) and all liabilities using the accrual basis of accounting which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the HCA's net assets, which is the difference between assets and liabilities, as one way to measure the HCA's financial position. Over time, increases or decreases in the HCA's net assets are one indicator of whether its financial position is improving or deteriorating. Additional factors, such as changes in the number of member counties involved in the HCA, changes in appropriations and legislation, measures of the number and type of GCS approved or built, and the amount of local matching funds, are also important in making this determination.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from three defined types of activities: cost share for county GCS, cost share for small GCS, and research. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash and cash equivalents during the reporting period.

Financial Analysis of the HCA

Assets, Liabilities and Net Assets			
		June 30,	
		2013	2012
Current assets	\$	1,613,833	\$ 1,598,931
Restricted assets		501,592	752,062
Prepaid Insurance		33	33
Total assets	\$	<u>2,115,458</u>	\$ <u>2,351,026</u>
Current liabilities			
Accounts payable	\$	-	\$ 5,245
Deferred income		33,000	27,000
Total current liabilities		<u>33,000</u>	<u>32,245</u>
Net assets:			
Unrestricted			
Undesignated		168,823	189,744
Temporarily Restricted			
Interest funds		147,792	169,954
State funds		<u>1,765,843</u>	<u>1,959,083</u>
		<u>1,913,635</u>	<u>2,129,037</u>
Total net assets		<u>2,082,458</u>	<u>2,318,781</u>
Total liabilities and net assets	\$	<u>2,115,458</u>	\$ <u>2,351,026</u>

The HCA's total restricted assets (funds available for GCS) decreased by \$215,402 from June 30, 2012 to June 30, 2013, or approximately 10.1%. This decrease is due to an increase in the number of state projects completed in FY2013. Many obligated HCA projects had been delayed over the last several years while counties focused on completing federally funded Emergency Watershed Protection (EWP) projects; EWP funding was available to western Iowa counties for a limited time only.

As noted earlier, net assets may serve over time as a useful indicator of financial position. The HCA's net assets decreased by \$236,323, or approximately 10.2%, and the HCA's total liabilities and net assets decreased by \$235,568, or approximately 10%, from June 30, 2012 to June 30, 2013. Both of these decreases are again due to an increase in the number of state projects completed.

The following shows the changes in net assets for the HCA.

Revenues, Expenses and Changes in Net Assets			
	June 30,		
	2013	2012	
Operating revenues:			
Federal Contracts Paid (NRCS)	\$ 557,983	\$ 245,618	
State Appropriations	393,750	356,250	
County Contributions	57,000	57,000	
Interest	8,800	9,297	
Other	1,822	2,563	
Total operating revenues	1,019,355	670,728	
Operating expenses:			
Administrative	115,906	115,344	
General	18,061	9,452	
Lobbying	7,500	7,500	
Research	1,900	54	
Federal GCS Completed	548,438	239,355	
State GCS Completed	533,925	-	
Small GCS	22,478	81,200	
Other Programs	7,470	15,731	
Total operating expenses	1,255,678	468,636	
Change in net assets	(236,323)	202,092	
Net Assets – Beginning of Year	2,318,781	2,116,689	
Net Assets – End of Year	\$ 2,082,458	\$ 2,318,781	

The amount of state funds paid for completed GCS increased by \$533,925 (all projects completed in FY12 were paid with federal funds). The amount of federal funds paid for completed GCS increased by \$309,083 from June 30, 2012 to June 30, 2013. All EWP projects were completed and paid in FY2011, leaving no EWP projects in FY2012. Meanwhile progress on obligated HCA projects slowed because available county resources had been used to utilize the federal EWP funding while available to western Iowa counties in FY2010 and 2011; after a year hiatus to allow county fund balances to build back up, many delayed HCA projects were completed in FY2013.

Construction of in-stream GCS is the goal of the HCA. When applications are received from the counties and approved, all restricted fund resources are available immediately and obligated to the newly-approved GCS each quarter. GCS are completed and paid year-around, so an average of 15-25 structures are in progress year-around. The variability and unpredictable nature associated with the timing of structure completions creates the need for immediate cash flow to the counties. The small structure

program is funded with interest earned from state and county funds to protect farmlands from gully erosion.

The cost-share paid to the counties from federal and/or state appropriations does not constitute any HCA, federal, or state ownership of those structures. HCA does not retain any infrastructure assets with the counties structures program or with the small structures program.

The following table lists the funds for county structure cost share that the HCA has administered during the fiscal years 2002 through 2013.

Funds Administered by HCA - 2002 to 2013					
Year	Federal Funds Appropriated	State Funds Appropriated	County Fee	Total Contribution	Federal Funds % of Total
2002	\$ 800,000	\$ 441,667	\$ 55,000	\$ 1,296,667	0.62
2003	\$ 1,200,000	\$ -	\$ 37,500	\$ 1,237,500	0.97
2004	\$ 1,200,000	\$ 400,000	\$ 40,000	\$ 1,640,000	0.73
2005	\$ 1,190,400	\$ 400,000	\$ 42,500	\$ 1,632,900	0.73
2006	\$ 1,188,000	\$ 400,000	\$ 42,500	\$ 1,630,500	0.73
2007	\$ -	\$ 400,000	\$ 51,000	\$ 451,000	0.00
2008	\$ 851,994	\$ 386,667	\$ 56,000	\$ 1,294,661	0.66
2009	\$ 282,000	\$ 400,000	\$ 56,000	\$ 738,000	0.38
2010	\$ 282,000	\$ 500,000	\$ 56,000	\$ 838,000	0.34
2011	\$ -	\$ 323,000	\$ 57,000	\$ 380,000	0.00
2012	\$ -	\$ 393,750	\$ 57,000	\$ 450,750	0.00
2013	\$ -	\$ 393,750	\$ 57,000	\$ 450,750	0.00
Total	\$ 6,994,394	\$ 4,438,834	\$ 607,500	\$ 12,040,728	0.58

Factors Affecting the HCA's Future

Overall, the HCA maintained its good financial position during the current fiscal year. However, the condition of the national, state, and local economies will continue to be a concern for the HCA Board of Directors. Some of the realities that may potentially become challenges for the HCA are:

- Ensuring that infrastructure protection and mitigating the negative impacts of streambed degradation remains an issue of priority in the eyes of federal, state, county, and local governments.
- Reductions in federal and state appropriations. The HCA needs continued state funding to match federal appropriations and federal EWP funding. During the last election, Iowa voters approved a natural resources trust fund through which the HCA may be able to receive funding, however, federal earmark appropriations may be coming to an end. It is estimated that an additional 180 bridges/culverts in western Iowa still need protection from streambed degradation. At an average of \$65,000 per project, the HCA will need appropriations of \$11,700,000 in state and federal funding to complete our mission of completely protecting western Iowa's infrastructure.
- The HCA program requires counties provide 20% match in order to receive cost share. Funding reductions for local governments may limit the amount of matching funds available for projects, thus limiting the total number of projects.

Contacting the HCA's Financial Management

This financial report is designed to provide federal, state, and county governments, partners, and taxpayers with a general overview of the HCA's finances and to show the HCA's accountability for the money it receives. If you have questions about this report and/or need additional financial information, contact Hungry Canyons Alliance, Inc., 712 S. Hwy. 6 & 59, P.O. Box 189, Oakland, IA 51560-0189.

FINANCIAL STATEMENTS

HUNGRY CANYONS ALLIANCE, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

ASSETS

	<u>2013</u>	<u>2012</u>
Current assets		
Cash and cash equivalents	\$ 1,613,833	\$ 1,598,931
Certificates of deposits	501,592	752,062
Prepaid insurance	<u>33</u>	<u>33</u>
Total current assets	2,115,458	2,351,026
Property and Equipment		
Equipment	13,661	13,661
Less accumulated depreciation	<u>13,661</u>	<u>13,661</u>
Net property and equipment	<u>-</u>	<u>-</u>
Total assets	<u>\$ 2,115,458</u>	<u>\$ 2,351,026</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$ -	\$ 5,245
Deferred income	<u>33,000</u>	<u>27,000</u>
Total current liabilities	33,000	32,245
Net assets		
Unrestricted		
Undesignated	<u>168,823</u>	<u>189,744</u>
	168,823	189,744
Temporarily Restricted		
Interest funds	147,792	169,954
State funds	<u>1,765,843</u>	<u>1,959,083</u>
	1,913,635	2,129,037
Total net assets	<u>2,082,458</u>	<u>2,318,781</u>
Total liabilities and net assets	<u>\$ 2,115,458</u>	<u>\$ 2,351,026</u>

See Accompanying Notes to Financial Statement

HUNGRY CANYONS ALLIANCE, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
Federal contracts	\$ -	557,983	557,983	\$ -	245,618	245,618
State appropriations	-	393,750	393,750	-	356,250	356,250
County support	57,000	-	57,000	57,000	-	57,000
Other support	-	-	-	-	-	-
Interest	151	8,649	8,800	253	9,044	9,297
Miscellaneous	1,822	-	1,822	2,563	-	2,563
Temporarily restricted funds released from restrictions	1,175,784	(1,175,784)	-	389,948	(389,948)	-
Total support and revenue	1,234,757	(215,402)	1,019,355	449,764	220,964	670,728
Expenses						
Federal structures	548,438	-	548,438	239,355	-	239,355
County structures	533,925	-	533,925	-	-	-
Small structures	22,478	-	22,478	81,200	-	81,200
Other program expense	7,470	-	7,470	15,731	-	15,731
Research and development	1,900	-	1,900	54	-	54
Administrative salaries and fees	115,906	-	115,906	115,344	-	115,344
Lobbying fees	7,500	-	7,500	7,500	-	7,500
Other management and general expenses	18,061	-	18,061	9,452	-	9,452
Total expenses	1,255,678	-	1,255,678	468,636	-	468,636
Change in net assets	(20,921)	(215,402)	(236,323)	(18,872)	220,964	202,092
Net assets, beginning of year	189,744	2,129,037	2,318,781	208,616	1,908,073	2,116,689
Net assets, end of year	\$ 168,823	1,913,635	2,082,458	\$ 189,744	2,129,037	2,318,781

See Accompanying Notes to Financial Statement

HUNGRY CANYONS ALLIANCE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (236,323)	\$ 202,092
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Increase (decrease) in:		
Payables	(5,245)	5,245
Deferred income	<u>6,000</u>	<u>(6,000)</u>
Net cash provided (used) by operating activities	<u>(235,568)</u>	<u>201,337</u>
Cash Flows from Investing Activities		
Purchase of investments	(503,344)	(754,985)
Proceeds from sale of investments	<u>753,814</u>	<u>757,029</u>
Net cash provided (used) by investing activities	<u>250,470</u>	<u>2,044</u>
Net change in cash	14,902	203,381
Cash and cash equivalents, beginning of year	<u>1,598,931</u>	<u>1,395,550</u>
Cash and cash equivalents, end of year	<u>\$ 1,613,833</u>	<u>\$ 1,598,931</u>

See Accompanying Notes to Financial Statement

**HUNGRY CANYONS ALLIANCE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Nature of Activities – The Hungry Canyons Alliance, Inc. is a private nonprofit corporation organized under Chapter 504(A), Code of Iowa in 1981. The Organization's primary focus is to protect the loess soils region of western Iowa from stream channel degradation. The Organization provides demonstrations, conducts research in effective methods, and provides financial and technical assistance for streambed stabilization projects in twenty-two counties.

The Organization is funded primarily through federal agency contracts, appropriations from state governmental agencies and support from local county governments.

Federal projects, awarded through the Hungry Canyons Alliance, Inc., receive federal funding for infrastructure protection through an approved cooperative agreement with the U.S. Department of Agriculture-Natural Resources Conservation Service. Federal awards and state appropriations provide the county cost-share for construction of stream control structures throughout the loess soils region of western Iowa.

The accompanying financial statements, which include all programs administered by Hungry Canyons Alliance, Inc., have been prepared in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and other accounting principles appropriate for non-profit associations.

The Organization's Board of Directors is comprised of representatives from each county served and are appointed by the County Board of Supervisors annually.

The statements of financial position, activities, and cash flows are all organization-wide financial statements. They report information for all Hungry Canyons Alliance, Inc., Inc.'s activities, which are in turn all deemed to be governmental activities. The Organization has no proprietary type activities.

Revenue Recognition – Revenues from appropriations, grants and other services are recognized when received or accrued. State appropriations, and interest earned thereon, in excess of related program expenses are recorded as temporarily restricted net assets until those funds are expended.

Income Taxes – The Organization is considered to be an affiliate of a governmental unit, making it exempt from state and federal income taxes under the Internal Revenue Code and, accordingly, no provision has been made for income tax liabilities or expense. The Organization is not considered a private foundation.

HUNGRY CANYONS ALLIANCE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents – For the purpose of the statements of cash flows, the Organization considers all highly liquid debt instruments purchases with maturity of three-months or less to be cash equivalents.

Property and Equipment – Equipment consists primarily of office equipment and is recorded at cost. Depreciation is provided on a straight-line basis over the five year estimated lives of the equipment.

Deferred Revenue – Deferred revenue represents county membership fees collected for the next fiscal period.

Concentration of Credit Risk – The Organization receives a substantial portion of its revenue from state grants. A significant reduction in the level of government funding would have a major effect on the Organization's programs and activities. The Organization also receives federal, state and county funding.

Cash funds deposited in excess of federally insured limits are protected by the Iowa State Sinking Fund for banks and savings associations, which covers Iowa uninsured public funds.

Fair Value of Financial Instruments – The carrying amounts of cash, receivables, accounts payable, accrued expenses, and other liabilities approximate their fair values due to the short-term maturities of these financial instruments.

Donor Imposed Restrictions – All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support depending on the nature of the restriction. The Organization's temporarily restricted net assets consist of state appropriations and interest earned on such appropriations, and are restricted for streambed stabilization projects. The Organization has no permanently restricted net assets.

Date of Management Review – Management has evaluated subsequent events through November 11, 2013, the date the financial statements were available to be issued.

**HUNGRY CANYONS ALLIANCE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 2 CERTIFICATES OF DEPOSIT

At June 30, 2013 and 2012, the Organization had funds invested in certificates of deposit as follows:

	Maturity	Interest	Amount Including Accrued Interest	
	Date	Rate	2013	2012
Twelve-Month Certificate	09-10-12	.50 %	\$ -	\$ 251,007
Twelve-Month Certificate	12-15-12	.50 %	-	250,677
Twelve-Month Certificate	03-11-13	.50 %	-	250,378
Twelve-Month Certificate	09-10-13	.50 %	250,903	-
Twelve-Month Certificate	12-15-13	.50 %	250,689	-
			<u>\$ 501,592</u>	<u>\$ 752,062</u>

NOTE 3 STRUCTURE COST COMMITMENTS

The Organization has approved various projects with local counties for soil stabilization projects. Formerly, when these projects were approved, the cost was recorded as an appropriated expense. The Organization has committed funding to the following projects not completed as of June 30, 2013:

State Projects	\$ 778,028
Small Structures	<u>42,500</u>
	<u>\$ 820,528</u>

These commitments are not reflected in the financial statements.

NOTE 4 COOPERATIVE AGREEMENT

The Organization enters into, on an annual basis, a cooperative agreement with Golden Hills Resource Conservation and Development, Inc. Under this agreement, Golden Hill Resource Conservation and Development, Inc. performs various duties, as follows: (1) assists in the job description, salary determination and hiring of a project director for Hungry Canyons Alliance, Inc., (2) provides training, technical assistance, office space and some equipment for use by the project director; (3) provides supervision and evaluation of performance of the project director; and (4) provides management of and accounting services for the Hungry Canyons Alliance, Inc. funds. Pursuant to this management agreement, the Organization made payments to Golden Hills Resource Conservation and Development, Inc. for administrative duties and payroll reimbursements in the amount of \$110,000 and \$110,000, for the years ended June 30, 2013 and 2012, respectively.

**HUNGRY CANYONS ALLIANCE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 5 RELATED PARTY TRANSACTIONS

Hungry Canyons Alliance, Inc. received \$393,750 and \$356,250 in passed through state support from Loess Hills Development and Conservation Authority for the years ended June 30, 2013 and 2012, respectively. Hungry Canyons Alliance, Inc. is considered an affiliate of this governmental unit. Hungry Canyons Alliance, Inc. also expensed \$5,906 and \$5,345 in administrative support to this Organization for each of the years ended June 30, 2013 and 2012.

HUNGRY CANYONS ALLIANCE, INC.
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2013

	Budget	Actual	Budget Variance Favorable (Unfavorable)
Support and Revenue			
Federal contracts	\$ -	\$ 557,983	\$ 557,983
State contracts	393,750	393,750	-
County support	-	57,000	57,000
Interest	-	8,800	8,800
Miscellaneous	-	1,822	1,822
Total support and revenue	<u>393,750</u>	<u>1,019,355</u>	<u>625,605</u>
Expenses			
Federal funds			
Federal structures	-	548,438	(548,438)
State funds			
State structures	1,477,632	533,925	943,707
Administrative expenses	39,375	39,375	-
Research and development	3,000	1,900	1,100
Stage discharge study	9,000	10,221	(1,221)
Aerial stream video reconnaissance	5,000	-	5,000
Experimental bored headcut basin terrace	20,000	-	20,000
Experimental scrap tire structure	10,000	-	10,000
Nickpoint study	1,000	-	1,000
GIS to GPS	25,671	-	25,671
Stream profile surveys	10,000	1,370	8,630
Road signs	1,000	-	1,000
Interest funds			
Small structures	25,500	22,479	3,021
Administrative expenses	8,531	8,531	-
Other funds			
Administrative expenses	68,000	68,000	-
Insurance	550	499	51
Supplies	2,250	770	1,480
Meetings and travel	3,000	3,916	(916)
Office assistants	2,000	-	2,000
Subscriptions	150	12	138
Miscellaneous	100	435	(335)
Lobbyist	7,500	7,500	-
Lobbying trips	5,000	7,038	(2,038)
Services to counties	450	1,269	(819)
Total expenses	<u>1,724,709</u>	<u>1,255,678</u>	<u>469,031</u>
Change in net assets	(1,330,959)	(236,323)	1,094,636
Net assets, beginning of year	<u>1,587,512</u>	<u>2,318,781</u>	<u>731,269</u>
Net assets, end of year	<u>\$ 256,553</u>	<u>\$ 2,082,458</u>	<u>\$ 1,825,905</u>

See Accompanying Independent Auditors' Report

HUNGRY CANYONS ALLIANCE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013

<u>Grantor/Program</u>	<u>Grant or Award Number</u>	<u>CFDA Number</u>	<u>Program Expenditures</u>
Direct:			
US Department of Agriculture			
Steambed Stabilization - Soil			
Conservation and Domestic			
Allotment Act of 1936	68-6114-9-37	10.902	\$ 129,697
	68-6114-10-015	10.902	<u>260,286</u>
			389,983
US Department of Fish and Wildlife			
Fish Passage Program	F12CA00715	15.608	<u>168,000</u>
			\$ <u><u>557,983</u></u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Hungry Canyons Alliance, Inc. and its presentation on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

See Accompanying Independent Auditors' Report



Diane McGrain, CPA
Jim Menard, CPA

November 11, 2013

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Hungry Canyons Alliance, Inc.
Oakland, IA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Hungry Canyons Alliance, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated November 11, 2013.

Internal Control over Financial Reporting

In planning and performing our audits, we considered Hungry Canyons Alliance, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hungry Canyons Alliance, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Hungry Canyons Alliance, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combinations of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Hungry Canyons Alliance, Inc.
Report on Internal Control

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hungry Canyons Alliance, Inc.'s financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Schroer & Associates, PC



Diane McGrain, CPA
Jim Menard, CPA

November 11, 2013

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR ITS MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
Hungry Canyons Alliance, Inc.
712 S Hwy 6 Box 189
Oakland, IA 51560

Report on Compliance for Each major Federal Program

We have audited Hungry Canyons Alliance, Inc.'s compliance with types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on Hungry Canyons Alliance, Inc.'s major federal program for the year ended June 30, 2013. Hungry Canyons Alliance, Inc.'s major federal program is identified in the summary of auditors' results section in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance of Hungry Canyons Alliance, Inc.'s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hungry Canyons Alliance, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal program. However, our audit does not provide a legal determination of Hungry Canyons Alliance, Inc.'s compliance.

Continued.....

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Hungry Canyons Alliance, Inc.
Report on Compliance for Its Major Program

Opinion on Its Major Federal Program

In our opinion, Hungry Canyons Alliance, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Hungry Canyons Alliance, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Hungry Canyons Alliance, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hungry Canyons Alliance, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirements of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, of a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Schroer & Associates, PC

**HUNGRY CANYONS ALLIANCE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013**

Part I: Summary of the Independent Auditors' Results

- a. The type of auditors' report issued was unmodified.
- b. No material weaknesses or significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- c. The audit did not disclose any noncompliance, which is material to the financial statements.
- d. No material weaknesses or significant deficiencies in internal control over its major program were disclosed by the audit of the financial statements.
- e. An unmodified opinion was issued on compliance with requirements applicable to its major program.
- f. The audit did not disclose any audit findings, which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section 510(a).
- g. The major program was as follows:

CFDA Number 10.902 – Soil Conservation and Domestic Allotment Act of 1936.
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i. Hungry Canyons Alliance, Inc. does not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements

Internal Control Deficiencies:	No comments or recommendations
Instances of Non-Compliance:	No matters were noted

Part III: Findings and Questioned Costs for Federal Awards

Instances of Non-Compliance:	No matters were noted
Internal Control Deficiencies:	No comments or recommendations